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## ***Text for HFA Transportation Revenue Charts***

### **Introduction**

Most of the money used to support state surface transportation programs – by which we mean the state trunkline road and bridge program of the Michigan Department of Transportation, the road and street programs of county road commissions, cities, and villages, and the public transportation programs of local transit agencies – comes from revenue appropriated in the state transportation budget. Those appropriations are supported by two primary revenue sources: revenue from constitutionally restricted state taxes, and revenue from dedicated federal transportation programs. There is no state General Fund revenue in the state transportation budget.

Because the state transportation budget is comprised almost entirely of state-restricted revenue or dedicated federal revenue, it is less affected by the appropriation process than budgets that are supported primarily by state General Fund revenue. State transportation funding is determined less by the priorities of the Governor or state legislators during the annual appropriations process than by the amount of available restricted transportation revenue generated from state taxes and federal appropriations.

For most state departments and programs a comparison year-to-year appropriations – particularly General Fund appropriations – is a reasonable way of identifying changes in budget priorities. However, for transportation programs the appropriated amounts are in some sense just placeholders; the appropriated amounts are less important than actual transportation revenue collected and distributed.

The spreadsheets and graphs on this webpage and described below have been developed to show actual transportation revenue collections and distributions.

### **Background**

#### ***State Restricted Transportation Revenue***

There are two state taxes which comprise the primary source of state-restricted transportation revenue: motor fuel taxes and vehicle registration taxes. Together, these taxes generate approximately \$2 billion per year for Michigan transportation programs.

Motor fuel taxes, which include the state's 19-cent per gallon gasoline excise tax, and the 15-cent per gallon diesel fuel tax, account for approximately \$1 billion per year in transportation revenue – about half of all state-generated transportation revenue. Motor fuel taxes are included in the pump price of fuel purchased from retail service stations.

Vehicle registration taxes represent the other major source of state transportation revenue. Revenue from these taxes generates over \$900 million per year. These taxes, which are established in the Michigan Vehicle Code (Public Act 300 of 1949), are assessed and collected when vehicle owners obtain new registration license plates from the Secretary of State, or renew registration tabs. Registration taxes for cars and light trucks are ad-valorem taxes, based on the price of the vehicle. Registration taxes on commercial trucks are based on vehicle weight.

Both of these revenue sources, state motor fuel taxes, and vehicle registration taxes are *constitutionally* dedicated for transportation. Article IX, Section 9 of the 1963 Michigan Constitution directs that these revenue sources “shall, after payment of necessary collection expenses, be used exclusively for transportation purposes...”

This constitutional dedication is put into effect through a statute, Public Act 51 of 1951. Act 51 directs constitutionally restricted transportation revenue to the Michigan Transportation Fund (MTF) and then distributes MTF revenue to other funds and programs:

■ State Trunkline Fund (STF)

For construction and preservation of state trunkline roads and bridges and administration of the Michigan Department of Transportation (MDOT)

■ Local Road Agencies

For local road and street programs of 83 county road commissions and 533 incorporated cities and villages

■ Comprehensive Transportation Fund (CTF)

For public transportation programs including capital and operating assistance to the state's 79 local public transit agencies

***Federal Transportation Funds***

In addition to state-restricted funds, the other major revenue source for Michigan transportation programs is the federal government. Major federal support for state transportation programs began in 1956 with the passage of the Federal-Aid Highway Act. In recent years, federal aid surface transportation programs have been authorized and defined by multi-year authorization acts including the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), the Transportation Equity Act for the 21st Century (TEA-21) enacted in June of 1998, and the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), signed into law August 10, 2005.

Federal transportation funds are distributed to the states through various program categories. States, in turn, have responsibility for administering the programs in accordance with federal requirements. SAFETEA-LU authorizes federal aid for both highway and public transportation programs.

Michigan received an average of \$800 million per year in federal transportation funds for the five year period following the enactment of TEA-21 (FY 1997-98 through FY 2001-02).

Because a number of federal-aid eligible roads in Michigan are under the jurisdiction of local road agencies (county road commissions, cities, and villages), Section 10o of Act 51 (MCL 247.660o) requires that an average of 25% of certain federal aid program categories be allocated for local road agency projects. There is no required amount or percentage allocation to any particular local road agency.

Unlike the distribution of MTF revenue under Act 51, not all road agencies receive federal-aid highway funds. The federal-aid highway program is a reimbursement program. Federal funds participate only in capital projects on federal-aid eligible roads and bridges; federal funds may not be used for routine or reactive maintenance.

### ***Charting Transportation Revenue***

Because of the importance of transportation revenue in determining funding levels for state transportation programs we have developed a running spreadsheet and associated charts showing revenue history and revenue estimates. These spreadsheets and graphs will be updated to reflect new estimates from the Michigan Department of Treasury's Economic and Revenue Forecasting Division (ERFD) revenue and as actual historical data is available from state financial statements.

### **Explanation of Spreadsheets and Charts**

#### ***Spreadsheet 1 – Total Transportation History***

This spreadsheet is the most detailed and is the basis for most of the other graphs and charts used in this document. It includes both MTF revenue and distribution data.

The spreadsheet uses FY 1996-97 as a baseline year. FY 1996-97 was the last year in which there was a significant statutory increase in state transportation taxes; the gasoline tax rate was raised from 15 cents per gallon to 19 cents per gallon.

Spreadsheet columns are updated with actual revenue and distribution detail each year as data becomes available after year-end book closing. The final two columns in the spreadsheet are based on estimated revenue from Treasury ERFD.

#### ***Spreadsheet 2 – Treasury update***

This spreadsheet is updated to show changes in Treasury ERFD revenue estimates for the current and subsequent fiscal years.

Charts 1 through 6 are used to illustrate the data in Spreadsheet 1. With the exception of the last two data points, which are based on ERFD estimates, all other data points on these charts are based on actual revenue and distribution figures.

#### ***Chart 1 MTF Revenue History***

This chart shows total gross MTF revenue.

### *Chart 2 MTF Revenue History - Detail*

This chart shows gross MTF revenue broken out into the three major revenue components: gasoline taxes, registration taxes, and diesel taxes. These three taxes are shown separately on Charts 5 – 7.

Chart 2 illustrates two major tax changes:

The increase in gas tax revenue between FY 1996-97 and 1997-98 reflects the increase in the gasoline tax from 15 cents to 19 cents per gallon.

The increase in vehicle registration taxes in FY 2003-04, and reductions in subsequent years, reflect the impact of Public Act 152 of 2003. PA 152 replaced annual trailer registrations with a "permanent" trailer registration plate. This resulted in a one-time increase in registration revenue in FY 2003-04. PA 152 also redirected certain registration service fees from the MTF to a newly created Transportation Administration Collection Fund (TACF). Redirecting service fees to the TACF reduced gross MTF revenue by approximately \$60 million in FY 2003-04, and approximately \$70 million in subsequent years. At the same time, the TACF paid for certain "off-the-top" revenue collection costs which had formerly been taken from the MTF. As a result, creation of the TACF reduced gross MTF revenue but increased net MTF revenue available for distribution. Net MTF revenue available for distribution is shown in Chart 3.

### *Chart 3 – Total MTF Distribution*

This chart shows the net MTF revenue available for distribution to major statutory recipients: the State Trunkline Fund, local road agencies, and the Comprehensive Transportation Fund (for public transportation programs). This distribution is made from net MTF revenue after deduction of various "off-the-top" appropriations.

### *Chart 4 – MTF Distribution – Road Agencies*

This chart shows the distribution of MTF revenue to the three major statutory road agency recipients: the State Trunkline Fund, county road commissions, and cities and villages.

Charts 5 through 7 show gasoline tax revenue, diesel tax revenue, and registration tax revenue separately. This is the same data shown in Chart 2, but separating each of the three component taxes better highlights year-to-year changes.

### *Spreadsheet 3 – Michigan Federal-Aid Revenue*

#### *Chart 8 – Michigan Federal-Aid Revenue*

This spreadsheet and chart show federal transportation revenue as expended by Michigan, including federal funds made available through the state to local road agencies and transit agencies. It does not include federal aid received directly by urban transit systems. The amounts are taken from annual Michigan Department of Transportation financial statements.